TOO INC
Form 10-Q
June 06, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MAY 3, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-14987

TOO, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	31-1333930
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

8323 WALTON PARKWAY, NEW ALBANY, OH	43054
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (614) 775-3500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days (or such shorter time as the Company became effective).

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

COMMON STOCK	OUTSTANDING AT MAY 30, 2003
$.01 Par Value	34,312,898 Shares

TOO, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TOO, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THIRTEEN WEEKS ENDED	
	MAY 3, 2003	MAY 4, 2002

Net sales	$ 140,127	$ 158,591
Costs of goods sold, buying and occupancy costs	97,458	105,068
Gross income	42,669	53,523
General, administrative and store operating expenses	36,234	43,525
Operating income	6,435	9,998
Interest (income) expense, net	(124)	253
Income before income taxes	6,559	9,745
Provision for income taxes	2,400	3,900
Net income	$ 4,159	$ 5,845
Earnings per share:		
Basic	$ 0.12	$ 0.19
Diluted	$ 0.12	$ 0.18
Weighted average common shares:		
Basic	34,098	31,425
Diluted	34,604	32,535

The accompanying notes are an integral part of these Consolidated Financial Statements.

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TOO, INC.
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	MAY 3, 2003 (UNAUDITED)	FEBRUARY 2003
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 86,468	$ 101,3
Receivables	5,018	4,9
Inventories	50,291	55,0
Store supplies	13,006	12,2
Other	1,032	2,2
Total current assets	155,815	175,8

Property and equipment, net	147,665	145,5
Deferred income taxes	14,929	14,9
Other assets	11,218	10,9
Total assets	$ 329,627	$ 347,3
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 13,954	$ 22,5
Accrued expenses	32,880	44,6
Income taxes payable	12,563	16,0
Total current liabilities	59,397	83,2
Other long-term liabilities	11,409	10,4
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock, 50 million shares authorized	-	
Common stock, $.01 par value, 100 million shares authorized, 34.1 million issued and outstanding at May 3, 2003 and February 1, 2003	341	3
Treasury stock, at cost, 29,709 shares	(998)	(9
Paid in capital	115,423	114,4
Retained earnings	144,055	139,8
Total shareholders' equity	258,821	253,6
Total liabilities and shareholders' equity	$ 329,627	$ 347,3

The accompanying notes are an integral part of these Consolidated Financial Statements.

TOO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED, IN THOUSANDS)

	THIRTEEN WEEKS ENDED	
	MAY 3, 2003	MAY 4, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,159	$ 5,845

IMPACT OF OTHER OPERATING ACTIVITIES ON CASH FLOWS:		
Depreciation and amortization	4,682	5,399
CHANGES IN ASSETS AND LIABILITIES:		
Inventories	4,789	10,122
Accounts payable and accrued expenses	(20,045)	(1,188)
Income taxes	(3,561)	(7,073)
Other assets	(1,234)	1,443
Other liabilities	976	1,001
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(10,234)	15,549
INVESTING ACTIVITIES:		
Capital expenditures	(5,636)	(15,560)
NET CASH USED FOR INVESTING ACTIVITIES	(5,636)	(15,560)
FINANCING ACTIVITIES:		
Stock options, restricted stock and other equity changes	1,038	2,063
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,038	2,063
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(14,832)	2,052
Cash and equivalents, beginning of period	101,300	63,538
Cash and equivalents, end of period	$ 86,468	$ 65,590

The accompanying notes are an integral part of these Consolidated Financial Statements.

TOO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

Too, Inc. (referred to herein as "Too" or "the Company") is the operator of two specialty retailing businesses, Limited Too and mishmash. Limited Too sells apparel, underwear, sleepwear, swimwear, footwear, lifestyle and personal care products for fashion-aware, trend-setting young girls ages seven to fourteen years. mishmash, launched by the Company in late September 2001, sells cosmetics, sportswear, intimate apparel and footwear to young women ages fourteen to nineteen. The assortment also includes accessories, jewelry, room decor furnishings and lifestyle products. See Note 10 to the Consolidated Financial Statements for further information about the Company's structure. The Consolidated Financial Statements include the accounts of Too, Inc. and its wholly-owned subsidiaries and reflect the

Company's assets, liabilities, results of operations and cash flows on a historical cost basis.

The accompanying unaudited interim Consolidated Financial Statements as of May 3, 2003 and for the thirteen weeks ended May 3, 2003 and May 4, 2002, are presented to comply with the rules and regulations of the Securities and Exchange Commission. Accordingly, these Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto contained in the Company's 2002 Form 10-K. In the opinion of management, the accompanying interim Consolidated Financial Statements reflect all adjustments (which are of a normal, recurring nature) necessary to present fairly the financial position, results of operations and cash flows for the interim periods, but are not necessarily indicative of the results of operations for a full fiscal year.

The Consolidated Financial Statements as of May 3, 2003, and for the thirteen weeks ended May 3, 2003 and May 4, 2002 included herein have been reviewed by the independent public accounting firm of PricewaterhouseCoopers LLP and the report of such firm follows the notes to the Consolidated Financial Statements. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for its report on the Consolidated Financial Statements because that report is not a "report" within the meaning of Sections 7 and 11 of that Act.

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

2. STOCK-BASED COMPENSATION

At May 3, 2003, the Company has various stock option and restricted stock plans. The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. No stock option-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, to stock-based employee compensation (in millions, except per share amounts):

	THIRTEEN WEEKS ENDED	
	MAY 3, 2003	MAY 4, 2002
Net Income, as reported	$ 4.2	$ 5.8
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1.0)	(0.7)

Pro forma net income	$ 3.2	$ 5.1
Earnings per share:		
Basic - as reported	$ 0.12	$ 0.19
Basic - pro forma	$ 0.09	$ 0.17
Diluted - as reported	$ 0.12	$ 0.18
Diluted - pro forma	$ 0.09	$ 0.16

The weighted average fair value per share of options granted is estimated using the Black-Scholes option-pricing model and the following weighted average assumptions for the thirteen weeks ended May 3, 2003 and May 4, 2002: expected life of 5.0, forfeiture rate of 20% and no expected dividends. Additionally, price volatility of 52% and 50%, and a risk-free interest rate of 2.9% and 3.5%, is assumed for the thirteen weeks ended May 3, 2003 and May 4, 2002, respectively. The weighted average fair value of options granted during the first quarter of fiscal years 2003 and 2002, respectively, was $7.30 and $12.35.

3. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if stock options or restricted stock were converted to common stock using the treasury stock method.

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The following table shows the amounts used in the computation of basic and diluted earnings per share (in thousands):

	THIRTEEN WEEKS ENDED	
	MAY 3, 2003	MAY 4, 2002
Net income	$ 4,159	$ 5,845
Weighted average common shares - basic	34,098	31,425
Dilutive effect of stock options and restricted stock	506	1,110
Weighted average common shares - diluted	34,604	32,535

Due to the options' strike price exceeding the average market price of

the common shares for the reporting periods, certain options were excluded from the calculation of net income per diluted share. Options to purchase 1,284,000 and 5,000 common shares were not included in the computation of net income per diluted share for the thirteen weeks ended May 3, 2003 and May 4, 2002, respectively.

4. INVENTORIES

The fiscal year of the Company is comprised of two principal selling seasons: Spring (the first and second quarters) and Fall (the third and fourth quarters). Inventories are principally valued at the lower of average cost or market, on a first-in, first-out basis utilizing the retail method. Inventory valuation at the end of the first and third quarters reflects adjustments for inventory markdowns and shrinkage estimates for the total selling season.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, at cost, consisted of (in thousands):

	MAY 3, 2003	FEBRUARY 1, 2003
Land	$ 8,041	$ 8,041
Buildings	41,715	41,611
Furniture, fixtures and equipment	143,088	140,312
Leasehold improvements	40,383	40,182
Construction-in-progress	4,942	1,587
Total	238,169	231,733
Less: accumulated depreciation and amortization	(90,504)	(86,203)
Property and equipment, net	$ 147,665	$ 145,530

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6. RELATED PARTY TRANSACTIONS

In connection with the August 23, 1999 Spin-off, the Company entered into a service agreement with Limited Logistics Services, a wholly-owned subsidiary of Limited Brands, to provide distribution services to us covering transportation of merchandise to our stores for up to three years after the Spin-off. Under the service agreement, Limited Brands distributed merchandise and related materials using common and contract carriers to the Company's stores. Inbound freight was charged to Too based upon actual receipts and related charges, while outbound freight was charged based on a percentage of cartons shipped. The Company terminated the service agreement in mid-2002.

Our main office was owned by Distribution Land Corp., a wholly-owned subsidiary of Limited Brands, and leased to us with a lease term expiring in August 2002. In April 2002, the Company completed construction of its new home office and terminated the aforementioned lease.

Our largest apparel supplier has been Mast Industries, Inc., a wholly-owned subsidiary of Limited Brands. Mast Industries supplied approximately 24% of the apparel that we purchased in 2002. We believe that all transactions that we have entered into with Mast Industries have been on terms that would have been obtained on an arm's length basis since we treat them as if they were a third party. We were not, and will not be, obligated to continue to source products through Mast Industries.

Amounts payable to Limited Brands, including merchandise payables to Mast Industries, approximated $3.7 and $6.8 million at May 3, 2003 and February 1, 2003, respectively.

During fiscal year 2002, the Company formed a 50% owned joint venture, which is accounted for under the equity method of accounting. The Company's investment in the joint venture amounted to $530,000 and $620,000 as of May 3, 2003 and February 1, 2003, respectively. The Company provides certain services to this joint venture for which the Company is reimbursed. The net receivable due to the Company for these services was $480,000 and $840,000 as of May 3, 2003 and February 1, 2003, respectively.

7. CREDIT FACILITY

During August 1999, the Company entered into a five-year $100 million credit agreement with a syndicate of banks. This credit agreement was collateralized by virtually all assets of the Company and was comprised of a $50 million five-year term loan and a $50 million revolving loan commitment. The entire amount of the term portion was drawn in order to fund a $50 million dividend to Limited Brands. On May 24, 2002, the Company paid off the entire $50 million term loan.

On April 29, 2003, the Company terminated the credit agreement and entered into a new credit facility (the "Credit Facility") with a syndicate of banks. The Credit Facility consists of a $100 million revolving loan commitment. Interest expense on borrowings under the Credit Facility is based on, at the borrower's option, either (1) the higher of the Prime rate and the federal funds effective rate plus 1/2 of 1% or (2) matrix pricing applied to the London Interbank Offered Rate. Under the terms of the Credit Facility, the Company is required to comply with certain covenants, including financial ratios such as leverage, coverage and tangible net worth. The Credit Facility limits the Company from incurring certain additional indebtedness and restricts substantial asset sales. The Company is in compliance with all applicable terms of the Credit Facility. As of May 3, 2003, there were no amounts outstanding under the Credit Facility.

Interest (income) expense consisted of the following (in thousands):

	THIRTEEN WEEKS ENDED	
	MAY 3, 2003	MAY 4, 2002

Interest expense	$ 120	$ 1,038
Interest income	(244)	(785)
Net interest (income) expense	$ (124)	$ 253

8. ADVERTISING BARTER TRANSACTIONS

The Company participates in advertising barter transactions whereby advertising space is allotted to third-parties in the Company's catalog in exchange for production of Limited Too promotional spots on television including airtime and other costs associated with cross-promotional events. The Company accounts for barter transactions in accordance with EITF 99-17, "Accounting for Advertising Barter Transactions." EITF 99-17 requires that barter transactions be recorded at the fair value of advertising surrendered only if the fair value is determinable based on the entity's own historical practice of receiving cash for similar advertising. The Company has historically not received cash for similar advertising. Therefore, no revenues or expenses were recorded for the thirteen weeks ended May 3, 2003 and May 4, 2002.

9. RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," became effective in the first quarter of 2003. The Statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the corresponding estimated retirement cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Because costs associated with exiting leased properties at the end of lease terms are minimal, the adoption of this Statement did not have a material impact on the Company's Consolidated Financial Statements.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" was issued by the Financial Accounting Standards Board during the second quarter of 2002. SFAS 145 eliminates FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Accounting Principles Board (APB) Opinion No. 30. SFAS 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of Statement 4 are effective for fiscal years beginning after May 15, 2002. The provisions of this Statement related to Statement 13 are effective for transactions occurring after May 15, 2002. All other provisions of this Statement are effective for financial statements issued on or after May 15, 2002. The adoption of this statement did not

have a material impact on the Company's Consolidated Financial Statements.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued by the Financial Accounting Standards Board during the second quarter of 2002. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 eliminates the definition and requirement for recognition of exit costs in EITF Issue No. 94-3 where a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. This Statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of this Statement did not have a material impact on the Company's Consolidated Financial Statements.

Financial Accounting Standards Board Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" was issued in November 2002. FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee. Guarantors will also be required to meet expanded disclosure obligations. The initial recognition and measurement provisions of FIN 45 are effective for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for annual and interim financial statements that end after December 15, 2002. The adoption of this Interpretation did not have a material impact on the Company's Consolidated Financial Statements.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on issues raised in EITF 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor." This EITF Issue addresses the timing of recognition for rebates that are earned by resellers based on specified levels of purchases or over specified periods of time. This guidance related to timing of recognition is to be applied prospectively to new rebate arrangements entered into after November 21, 2002. This EITF Issue also addresses the classification of cash consideration received from vendors in a reseller's income statement. The guidance related to income statement classification is to be applied to all new arrangements and arrangements modified after December 31, 2002. The adoption of this Issue did not have a material impact on the Company's Consolidated Financial Statements.

SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123" was issued in December 2002. SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company continues to account for stock-based compensation using Accounting Principles Board Statement No. 25, "Accounting for Stock Issued to Employees," and has not adopted the recognition provisions of SFAS No. 123, as amended by SFAS No. 148. However, the Company has adopted the disclosure

provisions of SFAS No. 148 and has included this information in Note 2.

FIN No. 46, "Consolidation of Variable Interest Entities," was issued in January 2003. FIN 46 establishes accounting and disclosure requirements for ownership interests in entities that have certain financial or ownership characteristics (sometimes known as Special Purpose Entities). FIN 46 is applicable for variable interest entities created after January 31, 2003 and becomes effective in the first fiscal year or interim accounting period beginning after June 15, 2003 for variable interest entities created before February 1, 2003. The Company is currently evaluating the impact of adopting FIN 46, but the Company's management does not expect the adoption of FIN 46 to have a significant impact on the results of operations, cash flows or the financial position of the Company.

10. SUBSEQUENT EVENT

On May 28, 2003, the Company announced that it is ending the rollout of its mishmash retail concept in favor of redirecting its resources to the development of a new concept focused on value-priced sportswear and accessories for `tween girls, ages 7 to 14. The mishmash stores will remain open through the back-to-school selling season, at which point many of the stores will be converted to new concept stores. The Company also announced the discontinuation of the Goldmark joint venture. Management is currently in process of discussions with landlords concerning the future economics of the existing store leases and, accordingly, the Company cannot estimate the impact on the results of operations, cash flows and financial position of the Company.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Shareholders of Too, Inc.:

We have reviewed the accompanying consolidated balance sheet of Too, Inc. and its subsidiaries (the "Company") as of May 3, 2003, and the related consolidated statements of income and cash flows for each of the thirteen-week periods ended May 3, 2003 and May 4, 2002. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of February 1, 2003, and the related consolidated statements of income, changes in shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 21, 2003 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of February 1, 2003 is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Columbus, Ohio
May 14, 2003

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Net sales for the thirteen weeks ended May 3, 2003 were $140.1 million, a decrease of 12% from $158.6 million for the comparable period of 2002. Gross income decreased 20% to $42.7 million from $53.5 million in 2002 and operating income declined 36% to $6.4 million from $10.0 million in 2002. Net income decreased 28% to $4.2 million from $5.8 million in 2002. Diluted earnings per share declined 33% to $.12, versus $.18 in 2002.

FINANCIAL SUMMARY

The following summarized financial and statistical data compares the thirteen week period ended May 3, 2003, to the comparable 2002 period:

	Thirteen Weeks Ended		
	May 3, 2003	May 4, 2002	Percent Change
Net sales (millions)	$ 140.1	$ 158.6	(12)%
Limited Too:			
Comparable store sales increase (decrease)(1)	(18)%	4%	
Sales per average square foot(2)	$ 65	$ 82	(21)%
Sales per average store (thousands)	$ 266	$ 335	(21)%
Average store size at quarter end (square feet)	4,117	4,096	1%
Total square feet at quarter end (thousands)	2,120	1,929	10%
Number of stores:			
Beginning of period	510	459	
Opened	7	13	
Closed	(2)	(1)	
End of period	515	471	

Stores remodeled	2	2
Stores with "Girl Power" format	289	230
Percentage of stores in "Girl Power" format	56%	49%
Number of mishmash stores	14	9

(1) A store is included in our comparable store sales calculation once it has completed 52 weeks of operation. Further, stores that have changed more than 20% in square feet are treated as new stores for purposes of this calculation.

(2) Sales per average square foot is the result of dividing net sales for the fiscal quarter by average gross square feet, which reflects the impact of opening and closing stores throughout the quarter.

NET SALES

Net sales for the first quarter of 2003 decreased 12% to $140.1 million from $158.6 million in 2002. Comparable store sales declined 18% for the first quarter of 2003 compared to 4% comparable store sales growth during the first quarter of 2002. The decline resulted from a fashion misstep that hindered the Company's results for the fourth quarter of fiscal 2002, and continued to impact a portion of Limited Too's spring apparel assortment in the first quarter of fiscal 2003. In addition, colder and more inclement weather, along with ebbing consumer confidence and its consequent effect on mall traffic, contributed to the first quarter decline. Finally, the late Easter holiday, and the resultant shift of the redemption period of the Company's spring Too Bucks promotion, caused a shift of approximately $6.5 million in sales from the first quarter to the second quarter of fiscal 2003.

The best performing merchandise categories during the thirteen weeks ended May 3, 2003 were casual shirts, lifestyle and jewelry. However, other than casual shirts, each of our hanging merchandise categories posted average store decreases during the first quarter versus the same period last year. In addition, the sleepwear, personal care and footwear categories posted average store decreases for the quarter.

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GROSS INCOME

Gross income, expressed as a percentage of net sales, was 30.5% for the first quarter of 2003, a decrease of 320 basis points from a gross income rate of 33.7% for the first quarter of 2002. This rate decrease was due to higher markdowns, which more than offset a 100 basis point gain in initial mark-ups. The rate decline was further exacerbated by our inability to leverage fixed buying and occupancy costs due to the negative comparable store sales performance.

GENERAL, ADMINISTRATIVE AND STORE OPERATING EXPENSES

General, administrative and store operating expense, expressed as a percentage of net sales, was 25.9% for the first quarter of 2003, a decrease of 150 basis points from a rate of 27.4% for the first quarter of 2002. This rate decrease was primarily due to lower incentive compensation expense, settlement proceeds received in lieu of a litigation claim and certain one-time expenses incurred last year for brand protection litigation, tax consulting, as well as moving and start-up costs associated with the new home office and the newly opened distribution center.

OPERATING INCOME

Operating income, expressed as a percentage of net sales, was 4.6% in the first quarter of 2003, a decrease of 170 basis points from 6.3% for the same period in 2002. The decrease in the operating income rate for the quarter was due to lower merchandise margins, higher markdown and occupancy rates, and despite lower general, administrative and store operating expenses, expressed as a percentage of sales.

INCOME TAXES

Income tax expense amounted to $2.4 million for the first quarter of 2003 compared to $3.9 million for the same period in 2002. The income tax provision rate decreased from 40.0% to 36.6% as a result of realigning our corporate operations, including our direct sourcing and supply chain management initiatives which provided state tax benefits, and investment in certain short-term, tax-free municipal bonds.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Cash provided from operating activities provided the resources to support operations, including projected growth, seasonal working capital requirements and capital expenditures.

Net cash used for operating activities amounted to $10.2 million for the thirteen weeks ended May 3, 2003 versus net cash provided by operating activities of $15.5 million for the same period in 2002. The decrease was primarily due to lower net income, accounts payable and accrued expenses, and higher inventory levels. The decrease in accounts payable and accrued expenses was due to the timing of store rent payments, a reduction in the accrual for incentive compensation, and the redemption of post-holiday gift cards. The higher inventory balance was a result of the later timing of the Company's spring Too Bucks redemption period.

In the first quarter of fiscal 2003, investing activities represented capital expenditures primarily for new and remodeled stores. In the first quarter of fiscal 2002, capital expenditures also included progress payments on the completion of construction of our new home office and distribution center.

Financing activities principally represented proceeds from employee stock option exercises and the issuance of restricted stock.

A summary of our working capital position and capitalization follows (in thousands).

	MAY 3, 2003	FEBRUARY 1, 2003
Working capital	$ 96,418	$ 92,644
Capitalization:		
Shareholders' equity	258,821	253,660

Total capitalization	$258,821	$253,660
Additional amounts available under the revolving portion of the Credit Facility	$100,000	$ 50,000

During August 1999, the Company entered into a five-year $100 million credit agreement with a syndicate of banks. This credit agreement was collateralized by virtually all assets of the Company and was comprised of a $50 million five-year term loan and a $50 million revolving loan commitment. The entire amount of the term portion was drawn in order to fund a $50 million dividend to Limited Brands. On May 24, 2002, the Company paid off the entire $50 million term loan.

On April 29, 2003, the Company terminated the aforementioned credit agreement and entered into a new credit facility (the "Credit Facility") with a syndicate of banks. The Credit Facility consists of a $100 million revolving loan commitment. Interest expense on borrowings under the Credit Facility is based on, at the borrower's option, either (1) the higher of the Prime rate and the federal funds effective rate plus 1/2 of 1% or (2) matrix pricing applied to the London Interbank Offered Rate. Under the terms of the Credit Facility, the Company is required to comply with certain covenants, including financial ratios such as leverage, coverage and tangible net worth. The Credit Facility limits the Company from incurring certain additional indebtedness and restricts substantial asset sales. The Company is in compliance with all applicable terms of the Credit Facility. As of May 3, 2003, there were no amounts outstanding under the Credit Facility.

CAPITAL EXPENDITURES

Capital expenditures, primarily for new and remodeled stores, totaled $5.6 million for the thirteen weeks ended May 3, 2003 compared to $15.6 million for the comparable period in 2002. The decrease is primarily due to the $12.3 million in costs the Company incurred in 2002 for the completion of construction of its new distribution center and home office. We anticipate spending between $25 million and $27 million in fiscal 2003 primarily for new stores, remodeling or expansion of existing stores and related fixtures and equipment. We intend to add 290,000 to 310,000 square feet in 2003, which will represent a 14% to 15% increase over year end 2002. We anticipate that the increase will result from opening approximately 50 to 55 new Limited Too stores and expanding approximately ten stores identified for remodeling. Additionally, we plan to open 10 to 11 new mishmash stores during fiscal 2003. We expect substantially all capital expenditures in fiscal 2003 will be funded by cash on hand and net cash provided by operating activities.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that impact the amounts reported in the Company's consolidated financial statements and related notes. On an on-going basis, management evaluates its estimates and judgments, including those related to inventories, long-lived assets and sales returns. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ materially from management's estimates. Management believes the following

estimates and assumptions are most significant to reporting the Company's results of operations and financial position.

Revenue Recognition - Retail sales are recorded when the customer takes possession of merchandise. Markdowns associated with the Frequent Buyer and "Too Bucks" Programs are recognized upon redemption in conjunction with a qualifying purchase. Catalog and web sales are recorded upon shipment to the customer. A reserve is provided for projected merchandise returns based on prior experience.

Inventories - Inventories are valued at the lower of average cost or market, on a first-in, first-out basis, utilizing the retail method. Under the retail method, the valuation of inventories at cost and the resulting gross margins are calculated by applying a cost-to-retail ratio to the retail value of inventories. The use of the retail method will result in valuing inventories at the lower of cost or market if markdowns are currently taken as a reduction of the retail value and cost of inventories. Inherent in the retail method are certain significant management judgments and estimates including, among others, markdowns and shrinkage, which significantly impact the ending inventory valuation at cost as well as the resulting gross margins. The Company calculates inventory costs on an individual item-class basis to ensure a high degree of accuracy in estimating the cost. Inventory valuation at the end of the first and third quarters reflects adjustments for inventory markdowns and shrinkage estimates for the total selling season.

Property and Equipment - Property and equipment are stated at cost, net of accumulated depreciation and amortization. Service lives are established for store assets ranging from 5 to 10 years for building improvements and 3 to 10 years for other property and equipment. Property and equipment at the home office and distribution center are assigned service lives between 5 and 40 years. Assets are reviewed on an annual basis for impairment, and based on management's judgment, are written down to the estimated fair value based on anticipated future cash flows.

Income Taxes - Income taxes are calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires the use of the liability method. Deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Inherent in the measurement of deferred balances are certain judgments and interpretations of enacted tax laws and published guidance with respect to applicability to the Company's operations. No valuation allowance has been provided for deferred tax assets because management believes that it is more likely than not that the full amount of the net deferred tax assets will be realized in the future.

RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," became effective in the first quarter of 2003. The Statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the corresponding estimated retirement cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Because costs associated with exiting leased properties at the end of lease terms are minimal, the adoption of this Statement did not have a material impact on the Company's Consolidated Financial Statements.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" was issued by the Financial Accounting Standards Board during the second quarter of 2002. SFAS 145 eliminates FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, SFAS No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Accounting Principles Board (APB) Opinion No. 30. SFAS 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of Statement 4 are effective for fiscal years beginning after May 15, 2002. The provisions of this Statement related to Statement 13 are effective for transactions occurring after May 15, 2002. All other provisions of this Statement are effective for financial statements issued on or after May 15, 2002. The adoption of this statement did not have a material impact on the Company's Consolidated Financial Statements.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued by the Financial Accounting Standards Board during the second quarter of 2002. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 eliminates the definition and requirement for recognition of exit costs in EITF Issue No. 94-3 where a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. This Statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of this Statement did not have a material impact on the Company's Consolidated Financial Statements.

Financial Accounting Standards Board Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" was issued in November 2002. FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under the guarantee. Guarantors will also be required to meet expanded disclosure obligations. The initial recognition and measurement provisions of FIN 45 are effective for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for annual and interim financial statements that end after December 15, 2002. The adoption of this Interpretation did not have a material impact on the Company's Consolidated Financial Statements.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on issues raised in EITF 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor." This EITF Issue addresses the timing of recognition for rebates that are earned by resellers based on specified levels of purchases or over specified periods of time. This guidance related to timing of recognition is to be applied prospectively to new rebate arrangements entered into after November 21, 2002. This EITF Issue also addresses the classification of cash consideration received from vendors in a reseller's income statement. The guidance related to income statement classification is to be applied to all new arrangements and arrangements modified after December 31, 2002. The adoption of this Issue did not have a material impact on the Company's Consolidated Financial Statements.

SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and

Disclosure - an amendment of SFAS No. 123" was issued in December 2002. SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company continues to account for stock-based compensation using Accounting Principles Board Statement No. 25, "Accounting for Stock Issued to Employees," and has not adopted the recognition provisions of SFAS No. 123, as amended by SFAS No. 148. However, the Company has adopted the disclosure provisions of SFAS No. 148 and has included this information in Note 2.

FIN No. 46, "Consolidation of Variable Interest Entities," was issued in January 2003. FIN 46 establishes accounting and disclosure requirements for ownership interests in entities that have certain financial or ownership characteristics (sometimes known as Special Purpose Entities). FIN 46 is applicable for variable interest entities created after January 31, 2003 and becomes effective in the first fiscal year or interim accounting period beginning after June 15, 2003 for variable interest entities created

before February 1, 2003. The Company is currently evaluating the impact of adopting FIN 46, but the Company's management does not expect the adoption of FIN 46 to have a significant impact on the results of operations, cash flows or the financial position of the Company.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Company cautions that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Management's Discussion and Analysis or made by management of the Company involve risks and uncertainties and are subject to change based on various important factors, many of which may be beyond the Company's control. Forward-looking statements are indicated by words such as "anticipate," "estimate," "expect," "intend," "risk," "could," "may," "will," "pro forma," "likely," "possible," "potential," and similar words and phrases and the negative forms and variations of these words and phrases, and include statements in this Management's Discussion and Analysis relating to anticipated capital expenditures in 2003 for new stores, the remodeling or expansion of existing stores and the related funding thereof. The following factors, among others, in some cases have affected, and in the future could affect, the Company's financial performance and actual results and could cause future performance and financial results to differ materially from those expressed or implied in any forward-looking statements included in this Management's Discussion and Analysis or otherwise made by management: changes in consumer spending patterns, consumer preferences and overall economic conditions; the impact of competition and pricing; changes in weather patterns; currency and exchange risks; changes in existing or potential trade restrictions, duties, tariffs or quotas; changes in political or financial stability; changes in postal rates and charges and paper and printing costs; availability of suitable store locations at appropriate terms; ability to develop new merchandise; ability to hire and train associates; and/or other risk factors that may be described in the Safe Harbor Statement and Business Risks section of the Company's Form 10-K, filed April 29, 2002, as well as other filings with the Securities and Exchange Commission. Future economic and industry trends that could potentially impact revenue and profitability are difficult to predict. Therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate. In light

of the significant uncertainties in the forward-looking statements included herein, the inclusion of such information should not be regarded a representation by the Company, or any other person, that the objectives of the Company will be achieved. The forward-looking statements made herein are based on information presently available to the management of the Company. The Company assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

To the extent we borrow under our Credit Facility, we will be exposed to market risk related to changes in interest rates. At May 3, 2003, no borrowings were outstanding under the Credit Facility. Additionally, we are exposed to market risk related to interest rate risk on the investment of cash in securities with original maturities of three months or less. These investments are considered cash equivalents and are shown as such on the Consolidated Balance Sheets. If there are changes in interest rates, those changes would affect the interest income we earn on those investments.

ITEM 4. Controls and Procedures

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer along with our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon this evaluation, our Chief Executive Officer along with our Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC reports. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Since the date of our evaluation to the filing date of this Quarterly Report on Form 10-Q, there have been no significant changes in our internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

There are various claims, lawsuits and other legal actions pending for and against Too incident to the operations of its business. It is the opinion of management that the ultimate resolution of these matters will not have a material adverse effect on Too's results of operations cash flows or financial position.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.28 Credit Agreement among Too, Inc., various lending institutions and National City Bank as Syndication Agent and Administrative

Agent (incorporated by reference to Exhibit 10.1 to the Current Report on For 8-K Filed on May 7, 2003).

15 Letter re: Unaudited Interim Financial Information to Securities and Exchange Commission re: Incorporation of Report of Independent Accountants.

99.1 Certification of Periodic Report by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of Periodic Report by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

None.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TOO, INC.
(Registrant)

By /s/ Kent A. Kleeberger

Kent A. Kleeberger
Executive Vice President, Chief Operating Officer and Chief Financial Officer
(duly authorized officer and Principal Financial and Accounting Officer)

Date: June 6, 2003

CERTIFICATION

I, Michael Rayden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Too, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented

in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 6, 2003

/s/ Michael W. Rayden

Michael W. Rayden
Chairman of the Board, President and
Chief Executive Officer

CERTIFICATION

I, Kent Kleeberger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Too, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 6, 2003

/s/ Kent A. Kleeberger

Kent A. Kleeberger
Executive Vice President, Chief
Operating Officer and Chief Financial
Officer